

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.)
For Approval to Sell the Barbers)
Point Harbor Substation Site)
_____)

DOCKET NO. 2007-0188

DECISION AND ORDER NO. 24077

Filed March 6, 2008

At 11 o'clock A.M.

Karen Higashi
Chief Clerk of the Commission

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DIV. OF CONSUMER ADVOCACY
DEPT. OF LAND AND
NATURAL RESOURCES
COMM. AFFAIRS
STATE OF HAWAII

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii

Karen Higashi

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DECISION AND ORDER

By this Decision and Order, the commission approves HAWAIIAN ELECTRIC COMPANY, INC.'s ("HECO") sale of the Barbers Point Harbor Substation site (the "Property").

I.

Background

A.

HECO

HECO is a Hawaii corporation and a public utility as defined by Hawaii Revised Statutes ("HRS") § 269-1. HECO was initially organized under the laws of the Kingdom of Hawaii on or about October 13, 1891. HECO is engaged in the production, purchase, transmission, distribution, and sale of electricity on the island of Oahu in the State of Hawaii.

B.

Application

On July 10, 2007, HECO filed an Application requesting commission approval to sell the Barbers Point Harbor Substation

site ("Application"),¹ in accordance with HRS § 269-19 and Paragraph 13 of the "Conditions for the Merger and Corporate Restructuring of Hawaiian Electric Company, Inc.," which is attached as Exhibit A to Order No. 7256, filed on September 29, 1982, in Docket No. 4337. In its Application, HECO requests commission approval to sell the Property ("Proposed Transaction") on the ground that the Property is no longer needed for utility purposes.²

C.

The Property

HECO states that it acquired the Property, which consists of 15,572 square feet located at 91-5120 Awakumoku Street (tax map key number 9-1-074:042)³ in 1995 for approximately \$362,672.75.⁴ The Property was purchased to provide a site for a

¹On July 10, 2007, HECO served a copy of the Application on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"). The Consumer Advocate is an ex officio party to this docket, pursuant to HRS § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62.

²On July 18, 2007, the Consumer Advocate submitted information requests ("IRs") to HECO. On August 1, 2007, HECO provided responses to the Consumer Advocate's IRs ("HECO's Response"). On August 20, 2007, the Consumer Advocate submitted its second set of IRs to HECO. On September 6, 2007, HECO provided responses to the Consumer Advocate's second set of IRs.

³See Application, at Attachment 1.

⁴This amount includes the addition of appraisal costs, outside attorney's fees, and postage incurred as part of the acquisition of the Property. See Response to CA-IR-4 and CA-IR-6, at 1.

substation to serve the projected load growth in the Kenai Industrial Park in which the Property is located.⁵

On April 30, 1993, HECO applied for commission approval to construct the Barbers Point Harbor Substation and to install a 10/12.5 mega volt-ampere ("MVA") transformer on the Property to serve the projected loads of the Kenai Industrial Park.⁶ The commission, in Decision and Order No. 12504, filed on July 9, 1993, in Docket No. 7693 ("Decision and Order No. 12504"), approved HECO's request.

However, when the projected loads in the Kenai Industrial Park failed to materialize, HECO filed a Motion to Rescind Decision and Order No. 12504 and to close the docket. By Order No. 14266, filed on September 15, 1995, in Docket No. 7693, the commission granted the Motion to Rescind Decision and Order No. 12504 and closed the docket.

According to HECO, the loads in the Kenai Industrial Park loads are currently served by the Malakole 12 kV circuit; two existing switchgear vaults will remain on the Property under an easement that HECO had obtained from the original developer of the Kenai Industrial Park; and no other HECO facilities are planned for the Property.⁷

⁵See Application, at 3.

⁶Application, at 3.

⁷See Application, at 3.

According to HECO, its existing facilities are sufficient to serve the current and projected load growth of the area surrounding the Property.⁸ HECO states:

The amount of undeveloped property in Kenai Industrial Park is approximately 1.23 million square feet. Using a load density factor of 6 watts/square foot for an industrial area, the projected electrical load of the undeveloped properties is approximately 7.4 MW (or 8.2 MVA based on a 90% power factor) of load. The future electrical load in the adjacent Barbers Point Harbor area is projected to be 4.7 MVA based on the Barbers Point Harbor Electrical Master Plan dated September 29, 2000 . . . Therefore, the total future projected electrical load of Kenai Industrial Park and the Barbers Point Harbor area is approximately 12.9 MVA [(i.e., 8.2 MVA plus 4.7 MVA)].

HECO's Response to CA-IR-1.a. Based on the above analysis, HECO's position is that the current and future loads can be satisfied without the Property's use:

HECO's existing Hanua Substation is situated in the Department of Transportation's (DOT) Barbers Point Harbor area. Presently, the Hanua Substation has one 46-12kV, 5/6.25 MVA transformer and is serving part of the DOT Barbers Point Harbor load. The existing load at Hanua Substation is approximately 2.5 MVA. This substation can be expanded to accommodate two 46-12kV, 10/12.5 MVA transformers for a full build out capacity of 20 MVA. Therefore, the full build out capacity at Hanua Substation can serve the existing load (2.5 MVA) and the combined future loads of Kenai Industrial Park and Barbers Point Harbor (12.9 MVA).

HECO's Response to CA-IR-1.c.

⁸HECO's Response to CA-IR-1, at 1.b.

D.

Proposed Transaction

HECO states that in March 2007, it received an offer to purchase the Property from ROIZ, LLC ("Roiz"), a Hawaii limited liability company affiliated with Hawaii Supply LLC, a distributor of roofing, insulation and water-proofing supplies and one of the owners in the Kenai Industrial Park.⁹ HECO and Roiz engaged in negotiations and entered into a Purchase and Sale Agreement to sell the Property for \$409,578.00, subject to commission approval.¹⁰

HECO's in-house appraiser reviewed comparable sales information and determined a site value of approximately \$26.18 per square foot,¹¹ which amounted to \$412,395 for the Property.¹² HECO's appraiser concluded that Roiz's offer of \$409,578 "was sufficiently close to his opinion of value, and should be accepted."¹³

HECO proposes that the entire gain from the sale be "applied to NARUC account 253 'Other Deferred Credits,' and amortized on a straight line basis to utility operating income . . . over a five-year period."¹⁴ HECO further proposes that the

⁹Application, at 4.

¹⁰Application, at 4.

¹¹See HECO's Response to CA-IR-3, at 16.

¹²See HECO's Response to CA-IR-3, at 16.

¹³HECO's Response to CA-IR-3.

¹⁴Application, at 4. HECO asserts that its proposed use of gains from the sale of the Property is based on past commission decisions. See Application, at 4.

five-year period begin in the month following the sale of the Property and that HECO deduct the unamortized balance in the "Other Deferred Credits" from rate base.¹⁵

E.

Consumer Advocate's Position

On September 20, 2007, the Consumer Advocate filed its Statement of Position ("Consumer Advocate's SOP"), informing the commission that it does not object to the commission's approval of HECO's request.¹⁶ The Consumer Advocate reviewed the reasonableness of the request and notes:

[T]he Consumer Advocate finds that [HECO's] projections for future load growth in the area are reasonable. Consequently, the Consumer Advocate believes that HECO's Hanua Substation, fully built out, can serve the existing and combined future loads of the Kenai Industrial Park and Barbers Point Harbor area.

Consumer Advocate's SOP, at 6. According to the Consumer Advocate, the proposed sale of the Property is reasonable "because the Property is not needed for utility purposes in the immediate future . . . [and] will not adversely affect HECO's ability to perform its duties to the public."¹⁷

The Consumer Advocate notes that "the sales price [\$409,578] is \$2,817 less than[,] or .7% of [HECO's]

¹⁵Application, at 4.

¹⁶Consumer Advocate's SOP, at 10.

¹⁷Consumer Advocate's SOP, at 6-7.

in-house-appraiser's estimated market value [\$412,395] of the [P]roperty."¹⁸ The Consumer Advocate asserts "that the sales price is reasonable based on the information provided by HECO to support the Company's assertion that the sales price is reflective [of] current market values."¹⁹

Regarding HECO's proposed accounting treatment of the gain from the sale, the Consumer Advocate states:

Because HECO's proposed accounting treatment for the net proceeds of the sale is consistent with previous [c]ommission rulings and the Consumer Advocate's recommendations in other dockets, the Consumer Advocate does not object to the Company's proposed accounting treatment for the net proceeds derived from the sale of the Property.

As an aside, the Consumer Advocate notes that HECO appears to have recorded the cost of the Property in a land account, as opposed to property held for future use . . . While there is no difference in the impact to rate base and the resulting revenue requirement, the Company should refrain from recording the cost of land acquired as the site of future substations in the land account. Instead the cost of such properties should properly be recorded in property held for use so that the [c]ommission, Consumer Advocate, and Company can monitor the length of time that the recorded cost of such property is included in the test year rate base.

Consumer Advocate's SOP, at 9.

II.

Discussion

HRS § 269-19 provides that no public utility corporation shall "sell, lease, assign, mortgage, or otherwise

¹⁸Consumer Advocate's SOP, at 8.

¹⁹Consumer Advocate's SOP, at 8.

dispose of or encumber the whole or any part of its road, line, plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit, or any right thereunder . . . without first having secured from the public utilities commission an order authorizing it so to do." HRS § 269-19 also states: "Every such sale, lease, assignment, mortgage, disposition, encumbrance, merger, or consolidation, made other than in accordance with the order of the commission shall be void."

Paragraph 13 of the "Conditions for the Merger and Corporate Restructuring of Hawaiian Electric Company, Inc." mandates that HECO "shall not transfer any of its property which is or was in the rate base . . . without the prior approval of the [c]ommission." It also states that the "determination of the transfer value and the accounting and rate-making treatment thereof shall be determined by the [c]ommission at the time of approval of such transfer."

Here, HECO requests approval to sell the Property to Roiz. As asserted by the Consumer Advocate, the conveyance is reasonable under the circumstances since the Property is not needed for future utility purposes. The Barbers Point Harbor Substation site was originally purchased to service the area, however the anticipated load failed to materialize. It is therefore reasonable for HECO to sell the Property. Moreover, the sales price and the proposed accounting treatment for the net proceeds are reasonable.

Finally, the commission agrees with the Consumer Advocate that HECO should refrain from recording the cost of land acquired as the site of future substations in the land account, and that instead the cost of such properties should be recorded in property held for future use so that the commission, Consumer Advocate, and HECO can monitor the length of time that the recorded cost of such property is included in the test year rate base.

III.

Orders

THE COMMISSION ORDERS:

1. HECO's request for approval to sell the Barbers Point Harbor Substation site to Roiz, LLC is approved.
2. This docket is closed unless otherwise ordered by the commission.

DONE at Honolulu, Hawaii MAR - 6 2008.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By John E. Cole
John E. Cole, Commissioner

By Leslie H. Kondo
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:

Jodi L. K. Yi
Jodi L. K. Yi
Commission Counsel

2007-0188.cp

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 24077 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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Karen Higashi

DATED: MAR - 6 2008